

Maeser Water Improvement District
Uintah County, Utah

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2005

Maeser Water Improvement District
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December 31, 2005

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Maeser Water Improvement District
Maeser, Utah

We have audited the accompanying basic financial statements of the Maeser Water Improvement District, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of Maeser Water Improvement District management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information was audited by other auditors who expressed an unqualified opinion on the financial statements in their report dated June 15, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Maeser Water Improvement District, as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2006 on our consideration of Maeser Water Improvement District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Caldwell, Coombs & Foley, LLP

Vernal, Utah
July 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2005**

As management of Maeser Water Improvement District (the District), we offer readers of the District's financial statements this narrative overview and analysis of financial activities of the District for the fiscal year ended December 31, 2005.

FINANCIAL HIGHLIGHTS

- * Total net assets for the District increased by \$158,116.
- * Total unrestricted net assets for the District decreased by \$533,314.
- * Total assets increased by \$287,302.
- * Total liabilities increased by \$129,187.

BASIC FINANCIAL STATEMENTS

The District is a special-purpose government engaged in business-type activities. All transactions related to its activities are recorded in a single enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation), on a continuing basis, be financed or recovered primarily through user charges.

The financial statements presented in this report are those required of an enterprise fund and consist of (1) the statement of net assets, (2) the statement of revenues, expenses, and changes in net assets, (3) the statement of cash flows, and (4) the notes to the financial statements.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating. However, other non-financial factors need to be considered as well.

The statement of revenues, expenses, and changes in net assets (the income statement) presents information about the amounts of revenues, expenses, and resulting net income for the year. Net income is the change in net assets. All items of income and expense are reported as soon as the underlying event giving rise to those items occurs, regardless of the when cash is received or paid.

The statement of cash flows starts with the amounts of net income and removes the non-cash portion (the receivables and payables which did not provide or use cash), thus converting the amounts to a cash basis.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements are reported later in this report; see Table of Contents.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District.

**Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2005**

FINANCIAL ANALYSIS

Maeser Water Improvement District's Net Assets

	Current Year	Previous Year	Change
Current and other assets	\$4,729,702	4,460,929	268,773
Capital assets	<u>5,224,543</u>	<u>5,206,013</u>	<u>18,530</u>
Total assets	<u>9,954,245</u>	<u>9,666,943</u>	<u>287,302</u>
Long-term liabilities	1,040,276	1,204,141	(163,865)
Other liabilities	<u>528,544</u>	<u>235,097</u>	<u>293,051</u>
Total liabilities	<u>1,568,424</u>	<u>1,439,238</u>	<u>129,187</u>
Net assets:			
Invested in fixed assets, net of debt	3,940,190	3,842,074	98,116
Restricted	711,405	118,092	593,313
Unrestricted	<u>3,734,226</u>	<u>4,267,540</u>	<u>(533,313)</u>
Total net assets	<u>\$8,385,321</u>	<u>8,227,705</u>	<u>158,116</u>

As noted earlier, net assets may serve, over time, as a useful indicator of financial position. Assets exceeded liabilities at the close of the year by \$8,385,821, an increase from the previous year of \$158,116.

Total unrestricted net assets at the end of the year are \$3,734,226, which represents a decrease of \$533,313 from the previous year. Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The amount of current and other assets represent the amounts of cash and receivables on hand at the end of each year. Other liabilities are the amount of current and other assets due, at year end, for goods and services acquired.

Changes in capital assets are the result of the difference, in the current year, of the cost of acquisition of capital assets and any depreciation charges on capital assets. Change in long-term debt is the difference in the amount of debt issued and that which has been paid during the year.

Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2005

FINANCIAL ANALYSIS (continued)

Maeser Water Improvement District's Changes in Net Assets

	Current Year	Previous Year	Change
Operating income:			
Service income	\$549,373	533,332	16,041
Other operating income	<u>28,012</u>	<u>28,015</u>	<u>(3)</u>
Total operating income	<u>577,385</u>	<u>561,347</u>	<u>16,038</u>
Operating expenses:			
Depreciation expense	228,490	203,961	24,529
Other operating expense	<u>519,531</u>	<u>435,703</u>	<u>83,828</u>
Total operating expense	<u>748,021</u>	<u>639,664</u>	<u>108,357</u>
Net operating income (loss)	<u>(170,636)</u>	<u>(78,317)</u>	<u>(92,319)</u>
Non-operating items:			
Revenues	358,799	280,094	78,704
Expenses	<u>(30,047)</u>	<u>(33,218)</u>	<u>3,172</u>
Total net non-operating items	<u>328,752</u>	<u>246,876</u>	<u>81,876</u>
Net income (loss)	<u>\$158,116</u>	<u>168,559</u>	<u>(10,443)</u>

Service income increased by \$16,041 over the previous year. Other operating income decreased by \$3.

Depreciation expense is the largest single element of operating costs and increased over the amount of the previous year by \$24,529. Other operating expenses increased by \$83,828 compared to the previous year.

The net operating income decreased by \$92,319 compared to last year, resulting in a yearly net operating loss of \$170,636.

Non-operating items increased by \$81,876 compared to the previous year.

Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2005

BUDGETARY HIGHLIGHTS

The District operates as an enterprise fund and is required to comply with the operating budget on an entity-wide basis. There were no budget amendments during the year. Revenues exceeded the amount budgeted and expenses were greater than budgeted due to higher than expected costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Maeser Water Improvement District's Capital Assets
(Net of depreciation)

	<u>Current Year</u>	<u>Previous Year</u>
Net Capital Assets:		
Land and rights of way	\$ 112,935	99,845
Water rights	20,682	12,372
Buildings and structures	112,774	118,828
Water and sewer system facilities	4,690,981	4,844,426
Machinery and equipment	146,717	77,780
Construction in progress	<u>140,454</u>	<u>52,761</u>
Total	<u>\$5,224,543</u>	<u>5,206,013</u>

There was little change in capital assets during the year. Additional information may be found in the notes to financial statements.

Maeser Water Improvement District's Outstanding Debt
Revenue Bonds

	<u>Current Year</u>	<u>Previous Year</u>
Water:		
83-3230	\$ 40,397	47,463
B-5030	34,058	40,106
83-3064	90,000	108,000
38-3180	180,300	210,350
83-3180	236,239	277,562
B3-3180	125,000	150,000
Sewer:		
83-3230	87,847	103,213
2001 A	314,000	327,245
2001 B	<u>96,300</u>	<u>100,000</u>
Total	<u>\$1,204,141</u>	<u>1,363,940</u>

Principal was repaid on the bonds in the total amount of \$159,799. Additional information regarding the long-term liabilities may be found in the notes to the financial statements.

**Maeser Water Improvement District
Management's Discussion and Analysis
December 31, 2005**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

There are some significant economic factors that could affect the District in the coming year; mostly related to the huge rate of growth that is occurring in the area, which could cause rate hikes as well as impact fees to increase. However, budgets have been set on essentially the same factors as the current year being reported.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Maeser Water Improvement District, Attn. Harry Miyoshi, (435) 789-2353.

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BASIC FINANCIAL STATEMENTS

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Maeser Water Improvement District
STATEMENT OF NET ASSETS
December 31, 2005

	<u>Current Year</u>	<u>Previous Year</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 732,655	1,288,659
Accounts receivable, net	50,800	61,448
Inventory	-	18,954
Prepaid assets	<u>15,992</u>	<u>9,940</u>
Total current assets	<u>799,447</u>	<u>1,379,001</u>
Non-current assets:		
Restricted cash and cash equivalents	929,357	118,092
Long-term cash deposits	1,066,310	1,029,248
Capital assets:		
Not depreciated	274,071	164,978
Being depreciated	9,508,923	9,643,987
Less accumulated depreciation	(4,558,451)	(4,602,952)
Other non-current assets:		
Investment in joint venture	<u>1,934,589</u>	<u>1,934,589</u>
Total non-current assets	<u>9,154,799</u>	<u>8,287,942</u>
Total assets	<u>\$9,954,245</u>	<u>9,666,943</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 174,274	75,298
Deferred revenues	190,009	-
Revenue bonds, current portion	<u>163,865</u>	<u>159,799</u>
Total current liabilities	<u>528,148</u>	<u>235,097</u>
Non-current liabilities:		
Revenue bonds, long-term	<u>1,040,276</u>	<u>1,204,141</u>
Total non-current liabilities	<u>1,040,276</u>	<u>1,204,141</u>
Total liabilities	<u>1,568,424</u>	<u>1,439,238</u>
NET ASSETS		
Invested in capital assets, net of related debt	3,940,190	3,842,074
Restricted for:		
Sinking fund	86,139	86,139
Reserve fund	31,953	31,953
Impact fee reserve	431,087	-
Construction reserve	162,226	-
Unrestricted	<u>3,734,226</u>	<u>4,267,540</u>
Total net assets	<u>8,385,821</u>	<u>8,227,705</u>
Total liabilities and net assets	<u>\$9,954,245</u>	<u>9,666,943</u>

The notes to the financial statements are an integral part of this statement.

Maeser Water Improvement District
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2005

	<u>Current Year</u>	<u>Previous Year</u>
OPERATING REVENUES		
Charges for services - water	\$ 289,299	283,394
Charges for services - sewer	260,073	249,937
Initial connection fees - water	21,600	21,450
Initial connection fees - sewer	4,605	2,848
Other operating revenues	<u>1,807</u>	<u>3,717</u>
Total operating revenues	<u>577,385</u>	<u>561,347</u>
OPERATING EXPENSES		
Operations and maintenance - water	171,843	119,806
Operations and maintenance - sewer	101,543	80,216
Water treatment	32,647	35,138
Sewer treatment	127,176	121,754
Administrative expense	86,322	78,790
Depreciation expense - water	105,237	94,594
Depreciation expense - sewer	96,541	101,535
Depreciation expense - general	<u>26,711</u>	<u>7,832</u>
Total operating expense	<u>748,021</u>	<u>639,664</u>
Net income (loss) from operations	<u>(170,636)</u>	<u>(78,317)</u>
NON-OPERATING REVENUE (EXPENSE)		
Interest income	84,724	52,294
Property tax revenue	63,633	61,900
Impact fees	199,950	165,550
Grant revenue	9,991	-
Gain (loss) on retirement of assets	500	350
Interest expense	<u>(30,047)</u>	<u>(33,218)</u>
Total non-operating revenue (expense)	<u>328,752</u>	<u>246,876</u>
Net income (loss)	158,116	168,559
Net assets, beginning	<u>8,227,705</u>	<u>8,059,147</u>
Net assets, ending	<u>\$8,385,821</u>	<u>8,227,705</u>

The notes to the financial statements are an integral part of this statement.

Maeser Water Improvement District
STATEMENT OF CASH FLOWS
For the year ending December 31, 2005

	Current Year	Previous Year
Cash flows from operating activities:		
Cash received from customers - service	589,672	605,180
Cash paid suppliers	(278,389)	(276,322)
Cash paid to employees	(216,344)	(176,279)
Net cash provided (used) in operating activities	<u>94,939</u>	<u>152,579</u>
Cash flows from noncapital financing activities:		
Property tax received	64,369	59,712
Change in customer deposits	8,443	(4,806)
Net cash provided (used) in noncapital financing activities	<u>72,812</u>	<u>54,906</u>
Cash flows from capital and related financing activities:		
Cash received from capital grants	200,000	-
Cash from impact fees	199,950	165,550
Cash payments for construction and acquisition of plant	(166,307)	(169,048)
Cash payments for long-term debt principal	(159,799)	(139,868)
Cash payments for long-term debt interest	(31,621)	(34,590)
Net cash provided (used) in capital and related financing activities	<u>42,223</u>	<u>(177,956)</u>
Cash flows from investing activities:		
Cash received from interest earned	82,349	52,294
Change in long-term cash deposits	(37,063)	(1,029,248)
Net cash provided (used) in investing activities	<u>45,287</u>	<u>(976,953)</u>
Net increase (decrease) in cash	<u>255,261</u>	<u>(947,424)</u>
Cash balance, beginning	<u>1,406,751</u>	<u>2,354,175</u>
Cash balance, ending	<u>1,662,012</u>	<u>1,406,751</u>
Cash reported on the balance sheet:		
Cash and cash equivalents	732,655	1,288,659
Non-current restricted cash	929,357	118,092
Total cash and cash equivalents	<u>1,662,012</u>	<u>1,406,751</u>

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The notes to the financial statements are an integral part of this statement.

Maeser Water Improvement District
STATEMENT OF CASH FLOWS, continued
For the year ended December 31, 2005

**Reconciliation of Operating Income
to Net Cash Provided from Operating Activity:**

	<u>Current Year</u>	<u>Previous Year</u>
Net operating income (expense)	(170,636)	(78,317)
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities		
Depreciation and amortization	228,490	203,961
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	12,288	43,834
(Increase) decrease in inventory	18,954	(18,954)
(Increase) decrease in prepaid expense	(6,052)	(2,083)
Increase (decrease) in accounts payable - operations	<u>11,895</u>	<u>4,139</u>
Net cash provided in operating activity	<u>94,939</u>	<u>152,579</u>

Non-cash investing, capital, and financing activities:

Water shares received in trade for water connection	\$ 8,310
Equipment received in trade for water connection	<u>3,050</u>
Total non-cash transactions	<u>\$11,360</u>

The notes to the financial statements are an integral part of this statement.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting entity

Maeser Water Improvement District (the District) is a special district, located in Uintah County, Utah, organized for the purpose of providing culinary water service to the residents of the District. The District operates under the direction of a five member Board of Trustees who are elected by the residents of the District..

The District has no component units and is not a component unit of another entity.

1-B. Government-wide financial statements

Government-wide financial statements display information about the District as a whole. The financial statements presented are those required of an enterprise fund and consist of the statement of net assets, the statement of revenues, expenses, and changes in net assets and the statement of cash flows. The District is considered a special-purpose government engaged in business-type activities and records all of the transactions related to its activities in a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods and services (including depreciation), on a continuing basis, be financed or recovered primarily through user charges. No fiduciary funds or components that are fiduciary in nature are included.

1-C. Measurement focus, basis of accounting, and financial statement presentation

Measurement focus is commonly used to describe the types of transactions and events that are reported in a fund's operating statement. The operating statement of an enterprise fund focuses on changes in, or the flow of, *economic* resources. With this measurement focus, all assets and liabilities associated with the operation of the fund, both current and non-current, are included on the statement of net assets. Thus, net assets (total assets less total liabilities) are used as a practical measure of economic resources.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. As a practical matter, a fund's basis of accounting is inseparably tied to its measurement focus. Funds that focus on total economic resources employ the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs. Under accrual accounting, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

**1-C. Measurement focus, basis of accounting, and financial statement presentation
(continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. The District also recognizes the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

1-D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and the State Treasurer's Investment Fund.

Investments for the District are reported at fair value. The State Treasurer's Investment Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the value of the pool shares.

2. Receivables and payables

Monthly reviews are made of all past due accounts. Shut-off notices are issued on past due active accounts and the District has lien capability on unpaid accounts. Customer accounts are reported net of an allowance for uncollectible accounts. The allowance amount is estimated based upon accounts receivable that are past due.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

1-D. Assets, liabilities, and net assets or equity (continued)

2. *Receivables and payables (continued)*

Property taxes are assessed and collected for the City by Uintah County and remitted to the District shortly after collection. Property taxes become a lien on January 1 and are levied on the first Monday in August. Taxes are due and payable on November 1, and are delinquent after November 30. All dates are in the year of levy.

3. *Inventories and prepaid items*

Inventories are valued at cost using the first-in / first-out method. The inventory consists of pipes, fittings and pumps used in the operation of the District.

At various times, certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Restricted assets*

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Other assets are restricted which are related to impact fees, developer construction deposits, customer security deposits, and construction monies.

5. *Capital assets*

All purchased capital assets, which include property, plant, and equipment, are carried at cost or estimated historical cost. Contributed capital assets are valued at estimated fair market value on the date received. Capital assets are defined as items with an initial, individual cost of more than \$750 and an expected life of more than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Interest incurred during the construction phase of capital assets, if directly related to the construction, is included as part of the capitalized amount of the assets constructed. There was no interest capitalized during the current year.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Water system	40-50
Buildings	15-40
Equipment	7-8
Vehicles	5
Office equipment	5

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

1-D. Assets, liabilities, and net assets or equity (continued)

6. *Compensated absences*

The District's policy regarding vacation leave and sick leave is such that no liability for compensated absences carries over from one year to the next. Thus, no liability for compensated absences exists at year end.

7. *Long-term obligations*

Long-term debt and other long-term obligations are reported as liabilities. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

8. *Equity*

The difference between total assets and total liabilities represents equity or net assets. Net assets presented in the statement of net assets are subdivided into three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

9. *Comparative data/reclassifications*

Comparative data are presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Certain reclassifications have been made in the prior year presentation. Investments in certificates of deposit with original maturity dates of more than three months in the amount of \$1,029,248 have been reclassified from "Cash and equivalents" to "Long-term cash deposits". The amount of the investment in the joint venture in the amount of \$1,934,589 has been reclassified from "Invested in capital assets, net of related debt" to "Unrestricted net assets" in accordance with general accepted accounting principles.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

2-A. Budgetary information

An annual operating budget is adopted by the District's board of trustees, on a basis consistent with generally accepted accounting principles, and as prescribed by state regulation. The budget is adopted prior to the beginning of the year to which it applies after a public hearing has been held. Subsequent amendments to the operating budget may be made after a public hearing.

A capital budget is also adopted by the board of trustees which identifies planned capital asset additions and requirements for long-term debt service principal payments, as well as the plan for financing these items.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE 3 - DETAILED NOTES

3-A. Deposits and investments

Cash and investments as of December 31, 2005 consist of the following:

	<u>Fair Value</u>
Cash on hand	-
Demand deposits - checking	\$ 154,807
Savings accounts and time certificates	1,090,453
Investments - PTIF	<u>1,483,062</u>
Total cash and investments	<u>\$2,728,322</u>

Cash and investments listed above are classified in the accompanying statement of net assets as follows:

Cash and cash equivalents	\$ 732,655
Restricted cash and cash equivalents	<u>929,357</u>
Total cash and cash equivalents	1,662,012
Long-term cash deposits	<u>1,066,310</u>
Total cash and investments	<u>\$2,728,322</u>

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that District funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an Institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The District maintains monies not immediately needed for expenditure in the PTIF as well as certificates of deposit in national banks.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

3-A. Deposits and investments (continued)

Deposit and Investment Risk

The District maintains no investment policy containing any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The District's compliance with the provisions of UMMA addresses each of these risks.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the District are available immediately except for the long-term certificates of deposit.

Credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. At December 31, 2005, \$955,629 of the Districts' demand and savings deposits was uninsured and uncollateralized.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the policy of investing excess monies only in PTIF.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

3-B. Receivables

Accounts not expected to be collected within one year are captioned as non-current receivables. Accounts receivable are shown on the financial statements as follows:

	Current <u>Year</u>	Previous <u>Year</u>
Property taxes receivable	\$ 1,453	2,188
Current customer accounts receivable	49,969	62,256
Less allowance for doubtful accounts	(2,996)	(2,996)
Interest receivable	<u>2,375</u>	<u>-</u>
 Net accounts receivable	 <u>\$50,800</u>	 <u>61,448</u>

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

3-C. Capital Assets

A summary of capital asset activity is listed below.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and land rights	\$ 99,845	13,090	-	112,935
Water rights / stock	12,372	8,310	-	20,682
Construction in progress	<u>52,761</u>	<u>87,693</u>	-	<u>140,454</u>
Total capital assets, not depreciated	<u>164,978</u>	<u>109,093</u>	-	<u>274,071</u>
Capital assets, being depreciated:				
Water system	4,137,230	47,463	-	4,184,693
Sewer system	4,827,070	-	-	4,827,070
Buildings and structures	458,978	-	272,991	185,987
Equipment	<u>220,709</u>	<u>90,464</u>	-	<u>311,173</u>
Total capital assets being depreciated	<u>9,643,987</u>	<u>137,927</u>	<u>272,991</u>	<u>9,508,923</u>
Less accumulated depreciation for:				
Water system	2,297,429	104,367	-	2,401,796
Sewer system	1,822,444	96,541	-	1,918,985
Buildings and structures	340,150	6,054	272,991	73,213
Equipment	<u>142,929</u>	<u>21,527</u>	-	<u>164,456</u>
Total accumulated depreciation	<u>4,602,952</u>	<u>228,490</u>	<u>272,991</u>	<u>4,558,451</u>
Capital assets being depreciated, net	<u>5,041,035</u>	<u>(90,563)</u>	-	<u>4,950,472</u>
Capital assets, net	<u>\$5,206,013</u>	<u>18,530</u>	-	<u>5,224,543</u>

During the year, continuing property records were established for the water and sewer systems. In the course of this analysis, several items were identified which had been taken out of service in previous years but were not retired from the records. The above indicated retirement removes the amount from the records. This amount was fully depreciated.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

3-D. Long-term debt

Long-term debt activity for the year was as follows:

	<u>Original Principal</u>	<u>% Rate</u>	<u>12/31/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2005</u>	<u>Due Within One Year</u>
Water fund:							
83-3230	\$119,700	4.50	\$ 47,464	-	7,066	40,397	7,384
B-5030	104,000	4.00	40,106	-	6,048	34,058	6,290
83-3064	126,000	-	108,000	-	18,000	90,000	18,000
38-3180	240,400	-	210,350	-	30,050	180,300	30,050
83-3180	700,000	4.50	277,562	-	41,323	236,239	43,183
B3-3180	175,000	-	150,000	-	25,000	125,000	25,000
Sewer fund:							
83-3230	260,300	4.50	103,214	-	15,366	87,847	16,058
2001 A	327,245	2.50	327,245	-	13,245	314,000	14,000
2001 B	100,000	2.50	<u>100,000</u>	<u>-</u>	<u>3,700</u>	<u>96,300</u>	<u>3,900</u>
Total long-term liabilities			<u>\$1,363,941</u>	<u>-</u>	<u>159,798</u>	<u>1,204,141</u>	<u>163,865</u>

All bonds are revenue bonds secured by the revenues of the water and sewer systems. Bonds were issued to finance the construction of the water and sewer systems.

Revenue bond debt service requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 163,865	28,022	191,886
2007	167,314	24,324	191,639
2008	170,809	20,477	191,286
2009	174,455	16,476	190,931
2010	178,348	12,314	190,661
2011-2015	127,950	35,095	163,045
2016-2020	111,200	22,348	133,548
2021-2025	<u>110,200</u>	<u>7,933</u>	<u>118,132</u>
Total	<u>\$1,204,141</u>	<u>166,988</u>	<u>1,371,129</u>

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

3-E. Restricted assets

Certain amounts have been restricted as to usage, generally for debt service, and construction and acquisition of capital assets. Reservations of net assets have been made in similar amounts. A list of restricted assets follows:

	Current <u>Year</u>	Previous <u>Year</u>
PTIF Sinking fund	\$ 86,139	86,139
PTIF Reserve fund	31,953	31,953
Impact fee reserve	431,087	
Construction deposits	24,143	
Customer deposits	3,800	
Construction funds	<u>352,235</u>	<u> </u>
Total restricted assets	<u>\$929,357</u>	<u>118,092</u>

NOTE 4 - OTHER INFORMATION

4-A. Employee pension and other benefit plans

Plan Description:

The City contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) and Public Safety Retirement System (Public Safety System) for employers with (without) Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy:

The District is required to contribute a percent of covered salary to the following system: 11.09% to the Noncontributory System. The contribution rate is the actuarially determined rate and is approved by the Board as authorized by Chapter 49.

The District's contributions for the year ending December 31, 2005, 2004, and 2003 for the Noncontributory System were, respectively, \$14,308, \$13,014, and \$9,421. The contributions were equal to the required contributions for each year.

Maeser Water Improvement District
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

4-B. Operating leases

The District leases the site of a water tank. The lease payment of \$7,700 was paid in advance during the year 2001. \$400 was paid for the year 2001, and the remaining \$7,300 is to be amortized over a 40 year period.

4-C. Investment in joint venture - Ashley Valley Sewer Management Board

Other non-current assets on the accompanying balance sheet is the cumulative investment in the Ashley Valley Sewer Management Board (AVSMB), which operates a sewer treatment facility and major sewer collection lines, serves Maeser Water Improvement District, Ashley Valley Water and Sewer Improvement District, and Vernal City. The investment represents an ownership interest in the sewer treatment facility.

AVSMB funds its current operations from service fees charged to the three participating entities. For the calendar year 2005 Maeser Water Improvement District paid service fees in the amount of \$127,176 including \$32,094 payable at December 31, 2005. AVSMB has received significant government grants and loans for funding its capital improvements. Annual financial statements for AVSMB may be obtained from its office at P.O. Box 426, Vernal, UT 84078.

4-D. Connection and Impact fees

Water – The District charges \$3,050 per connection consisting of a \$700 hook-up charge and a \$2,350 impact fee. The impact fee will pay for the costs of constructing the water transmission lines and water line debt service.

Sewer – The District charges \$1,825 per connection consisting of a \$325 hook-up charge and a \$1,500 impact fee. The impact fee goes toward the costs of constructing the sewer lines and sewer line debt service.

4-E. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District participates in the Utah Local Government Trust, a public agency insurance mutual, which provides coverage for property damage and general liability. The District is subject to a minimal deductible for claims. There have been no significant reductions in insurance coverage from coverage in the prior year. Amounts of settlements have not exceeded insurance coverage in any of the past three fiscal years.

OTHER REPORTS

CALDWELL, COOMBS & FOLEY, LLP

Certified Public Accountants

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Maeser Water Improvement District
Maeser, Utah

We have audited the basic financial statements of Maeser Water Improvement District, as of and for the year ended December 31, 2005, and have issued our report thereon dated July 14, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Maeser Water Improvement District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of auditor's findings and recommendations as items 05-1 and 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 05-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Maeser Water Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of auditors' findings and recommendations as item 05-3.

We noted certain other matters that are reported in the accompanying schedule of Auditors' Findings and Recommendations as items 05-4 through 05-7.

This report is intended solely for the information of the Board of Trustees, management, others within the organization, and the Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Caldwell, Coombs & Foley, LLP

Vernal, Utah
July 14, 2006

CALDWELL, COOMBS & FOLEY, LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Maeser Water Improvement District
Maeser, Utah

We have audited the basic financial statements of Maeser Water Improvement District as of and for the year ended December 31, 2005, and have issued our report thereon dated July 14, 2006. The District received the following nonmajor grant, which is not required to be audited for specific compliance requirements: (However, this program was subject to testwork as part of the audit of the District's financial statements.)

Community Impact Grants (Department of Community and Economic Development)

Our audit included test work on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Cash Management
Purchasing Requirements	Budgetary Compliance
Truth in Taxation and Property Tax Limitations	Special Districts
Other General Compliance Issues	Impact Fees

The District did not receive any major State grants during the year ended December 31, 2005.

The management of Maeser Water Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Maeser Water Improvement District
Auditor's Report on State Compliance (continued)

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of auditors' findings and recommendations as items 05-4 through 05-7.

In our opinion, except for the issues regarding impact fees described in the accompanying schedule of auditors' findings and recommendations as item 05-3, Maeser Water Improvement District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

Caldwell, Coombs & Foley, LLP

Vernal, Utah
July 14, 2006

Maeser Water Improvement District
Auditors' Findings and Recommendations
For the Year Ended December 31, 2005

INTERNAL CONTROL

05-1. Signing Blank Checks

Finding – We noted that the treasurer normally signs enough blank checks to pay the bills authorized by the board of trustees in its monthly meeting, plus enough additional blank checks to cover any additional bills and payrolls that need to be paid prior to the next monthly board meeting. Two signatures are required on checks, typically those of the treasurer and the clerk.

Effect – This procedure essentially nullifies the requirement for two signatures on the checks and seriously compromises internal control.

Recommendation – We recommend that checks for the bills to be presented to the board of trustees in its monthly meeting be printed before the meeting so that the treasurer can sign the checks upon approval by the board. When bills or payrolls need to be paid between meetings arrangements should be made for the treasurer to review and sign the checks after they have been prepared. In no instance should blank checks be signed.

District Response – The board of trustees will review the recommendation and make appropriate changes to our procedures.

05-2. Purchasing Policy

Finding – We noted that the District has adopted the State of Utah's purchasing policy. The procedures followed by the District differ from those in the policy in several instances.

Effect – The State of Utah's policy was designed for a larger organization. The practices followed by the District do not comply with the policy's procedures.

Recommendation – We recommend that the District adopt a purchasing policy designed for organizations similar in size and type of operation.

District Response – The board of trustees will consider the recommendation and make appropriate changes to our policies.

Maeser Water Improvement District
Auditors' Findings and Recommendations
For the Year Ended December 31, 2005

COMPLIANCE

05-3. Impact Fees

Finding – We noted that the District imposes impact fees with each water and sewer connection. However, we were not able to obtain copies of the capital facilities plans or impact fee written analysis. We noted the District had not prepared the annual reports required by statute. The District has established separate deposit accounts to hold impact fees, however procedures are not in place to reconcile amounts transferred into the accounts with the fees collected as reported in the financial accounting system, or to record expenditure of impact fees for allowable costs.

Criteria – The *Impact Fees Act*, Title 11, Chapter 36 of the *Utah Code* sets out the requirements for imposing impact fees.

Effect – The District was unable to demonstrate compliance with the *Impact Fees Act*.

Recommendation – Management should become familiar with the provisions of the *Impact Fees Act* and should implement appropriate procedures to insure the District's compliance with the law.

District Response – We will implement the recommendation.

05-4. Budget

Finding – We noted that expenditures exceeded budget appropriations. We noted that budgets were adopted by a motion and vote of the board of trustees; however no resolution was adopted. We also noted that budget amounts entered into the District's accounting system were incomplete.

Criteria – Section 17A-1-417 of the *Utah Code* states that the governing body shall by resolution adopt a budget for the ensuing fiscal year for each fund for which a budget is required. The law further states that officers and employees of the District shall not incur expenditures in excess of the total appropriation for any fund.

Effect – District employees incurred expenses in excess of the amount legally allowed by the

Maeser Water Improvement District
Auditors' Findings and Recommendations
For the Year Ended December 31, 2005

budget. The District's procedures for adopting budgets did not completely comply with the statute. And the District's financial reports provided an incomplete picture of the budget and how actual expenditures compared to it.

Recommendation – The Board of Trustees should add the formality of a budget resolution to its budget adoption procedures. Budgeted amounts should be included in the District's financial system so that reports provide an accurate picture. Management should carefully monitor actual expenditures and the budget should be opened and amended as provided in the law as needed to cover necessary expenditures.

District Response – We will implement the recommendations.

05-5. Property Tax Procedures

Finding – We noted the amount budgeted for property tax revenue did not equal the amount reported on Form PT-250-SSD, *Tax Rate Summary*.

Criteria – The Utah State Tax Commission requires the filing of form TC-693 *Tax Rate Summary*. The form includes a column "Budgeted Revenue." The amounts in that column should be the same as the revenue amounts in the adopted budget.

Recommendation – We suggest that the amount budgeted for property taxes should be amended as necessary to agree with the amount reported on form TC-693.

District Response – We will implement the recommendations.

05-6. Nepotism

Finding – We noted that a son of one of the board of trustees was employed by the District in a temporary position.

Criteria – Section 52-3 of the *Utah Code* states that, except under specific circumstances, no public officer may employ, appoint, vote for, recommend the appointment of, or supervise a relative, when the salary, wages or compensation of that relative will be paid from public funds.

Effect – The District may have violated the Nepotism Act.

Recommendation – Management should become familiar with the provisions of the

Maeser Water Improvement District
Auditors' Findings and Recommendations
For the Year Ended December 31, 2005

Nepotism Act and should implement appropriate procedures to insure the District's compliance with the law.

District Response – We will implement the recommendation.

05-7. Personnel Policy

Finding – We noted that the District uses a personnel policy obtained from another entity. The policy has not been updated for several years.

Criteria – Section 17A-1-602 of the *Utah Code* requires special districts with any full or part-time employees to have a personnel system which incorporates policies for the following: recruiting, advancing, compensating, training, fair treatment, and provision of information about political rights and appeals procedures. The system should be updated annually.

Recommendation – The District should adopt a personnel policy customized to the district's needs that satisfies the requirements of the State law.

District Response – We are currently in the process of reviewing a new personnel policy.